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In the Supreme Court of the United States

CUOZZO SPEED TECHNOLOGIES, LLC, PETITIONER

v.

MICHELLE K. LEE, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR, PATENT AND TRADEMARK OFFICE

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR THE PETITIONER

JANET GALERIA
SULLIVAN & CROMWELL LLP
1888 Century Park East
Los Angeles, CA 90067
(310) 712-6600

JEFFREY B. WALL
Counsel of Record
SULLIVAN & CROMWELL LLP
1700 New York Avenue, N.W.
Suite 700
Washington, DC 20006
(202) 956-7500
wallj@sullcrom.com

GARRARD R. BEENEY
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000

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REPLY BRIEF FOR THE PETITIONER

The Government's response reads like a merits brief. It does not seriously dispute that the questions presented are extremely important to the patent system, that the issues have deeply divided the Federal Circuit, or that this case is an ideal vehicle for resolving them. In short, the Government has almost nothing to say about any of this Court's traditional certiorari criteria. Instead, the Government defends at length the result below. Those arguments should receive a full airing on the merits, but suffice it to say that the Government's arguments are incorrect and do not militate against further review in a case of such exceptional importance to patent holders and challengers.

I. THE QUESTION OF WHETHER THE BOARD APPLIES THE PROPER CLAIM CONSTRUCTION STANDARD WARRANTS REVIEW.

A. The Question Is Exceptionally Important.

Congress designed *inter partes* review (IPR) to serve as an efficient surrogate for district-court litigation over patent validity. See Pet. App. 54a (joint dissent); *id.* at 32a (Newman, J., dissenting). In the three-plus years since the IPR system took effect, it has become a surprisingly lethal tool for invalidating patents. One significant reason is that the Patent Trial and Appeal Board affords claims in issued patents their broadest reasonable interpretation (BRI), making relevant a broader array of art and rendering it much easier to invalidate issued patents. See Pet. 16 (Board has cancelled patent claims in nearly 85% of IPR trials). By contrast, district courts and the In-

ternational Trade Commission (ITC) construe such claims according to their plain and ordinary meaning. Patent challengers thus file IPR petitions in droves to take advantage of the Board's more favorable standard—and they even take a second bite at the apple in IPR proceedings after having lost in litigation. See InterDigital Amicus Br. 17-20; see also BIO Amicus Br. 7-9; PhRMA Amicus Br. 9-10. The inconsistency in claim construction generates uncertainty for patentees and invites gamesmanship by challengers. The Government therefore correctly does not dispute that the question is a very important one.

B. The Board Applies The Wrong Claim Construction Standard.

The Government instead argues (Br. 8-16) that the PTO acted within its authority in promulgating 37 C.F.R. 42.100(b), which adopts the BRI standard for IPR proceedings. The Government's merits defenses are mistaken.

1. The PTO's regulation exceeds its rulemaking authority.

The America Invents Act (AIA) grants authority to the PTO to prescribe regulations governing the conduct of IPR trials, including joinder, discovery and protective orders, briefing procedures, oral argument, timely disposition by the Board, and sanctions for abusive conduct. 35 U.S.C. 316(a)(3), (5)-(8), and (10)-(12). The Government grounds (Br. 15) the PTO's authority to promulgate Section 42.100(b) in Paragraph 4, which allows the PTO to prescribe regulations "establishing and governing inter partes review" and "the relationship of such review to other proceedings" under Title 35. *Id.* § 316(a)(4).

Paragraph 4's language is substantially similar to that of a longstanding provision of the Patent Act, which grants authority to the PTO to prescribe regulations "govern[ing] the conduct of proceedings in the Office." 35 U.S.C. 2(b)(2)(A). The Federal Circuit has held that "[t]o comply with section 2(b)(2)(A), a Patent Office rule must be *procedural*." *Cooper Techs. Co.* v. *Dudas*, 536 F.3d 1330, 1335 (Fed. Cir. 2008) (internal quotation marks omitted; emphasis added). The Government identifies no persuasive reason to conclude that the PTO's authority under the AIA is broader than its authority under the Patent Act.

Contrary to the Government's argument (at 16), the BRI standard is not procedural. The standard is clearly substantive because, by allowing prior art that would be irrelevant in district-court proceedings to invalidate a patent, it "effects a change in existing law or policy which affects individual rights and obligations." *Cooper*, 536 F.3d at 1336 (internal quotation marks and brackets omitted). The Government itself recognizes that the BRI standard has never been used as an *adjudicatory* tool to assess the validity of issued patents. The protocol is "simply 'an *examination* expedient.'" Br. 16 (quoting *In re Skvorecz*, 580 F.3d 1262, 1267 (Fed. Cir. 2009); emphasis added). And affording claims their broadest reasonable meaning rather than their ordinary meaning can make all the difference for whether a patent holder retains the valuable property right in its patent.

2. The PTO's regulation is unreasonable.

Even assuming that Section 42.100(b) does not exceed the PTO's rulemaking authority, it is plainly unreasonable.

a. Throughout its discussion of the BRI standard, the Government makes virtually no mention of the AIA. It argues (Br. 9-10, 15) instead that, because the BRI standard historically has been used in other types of post-issuance examinational proceedings, the PTO acted permissibly in adopting the standard for adjudicatory IPR proceedings as well. But the IPR system sprang from Congress's dissatisfaction with the examinational nature of those other types of post-issuance proceedings. See, *e.g.*, H.R. Rep. No. 112-98, pt. 1 at 46-47 (2011) ("The Act converts inter partes reexamination from an examinational to an adjudicative proceeding, and renames the proceeding 'inter partes review.'"); IPO Amicus Br. 8-9.

The Government is thus wrong (Br. 10) to analogize *inter partes* review to *inter partes* reexamination, because the purpose of *inter partes* reexamination is "to 'start over' in the PTO * * * and to *examine* new or amended claims, as they would have been considered if they had been originally examined in light of all of the prior art of record in the reexamination proceeding." *In re Etter*, 756 F.2d 852, 857 (Fed Cir. 1985) (en banc) (emphasis in original). "[T]he focus of [reexamination] is on curing defects which occurred during a proceeding in the PTO, which was responsible for original issuance of the patent." *Id.* at 858.

By contrast, *inter partes* review does not involve PTO examination at all. Rather, it adjudicates the validity of the patent in a trial-like setting before a panel of three administrative patent judges. In short, IPR provides a relatively quick and inexpensive "surrogate for district court validity determinations." Pet. App. 54a (joint dissent) (internal quotation marks omitted); see *id.* at 32a (Newman, J., dissenting);

157 Cong. Rec. S1111 (daily ed. Mar. 2, 2011) (Sen. Leahy, Exh. 1) ("[The AIA] decreases the likelihood of expensive litigation because it creates a less costly, in-house administrative alternative to review patent validity claims."). The Government is thus correct that the question here is whether IPR proceedings are "more closely analogous to initial examination * * * [or] district-court litigation," Br. 14, but the PTO has given the fundamentally wrong answer in light of the AIA's text, history, and structure.

Indeed, both the Board and the panel majority acknowledge that an IPR proceeding "is neither a patent examination nor a patent reexamination," but "a trial, adjudicatory in nature." *Google, Inc.* v. *Jongerius Panoramic Techs., LLC*, IPR2013-00191, Paper No. 50, at 4 (Feb. 13, 2014); see Pet. App. 17a ("IPR may be said to be adjudicatory rather than an examination."). Given the adjudicatory nature of IPR proceedings, the Government makes no effort to explain—as the panel majority did not—"why Congress (or anyone else) would have thought it desirable or necessary for the Board to construe the claims during IPRs under a different legal framework than the one used by district courts." Pet. App. 54a-55a (joint dissent).[1]

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[1] The Government asserts (Br. 12) that the PTO has applied the BRI standard in *inter partes* reexaminations, which are adversarial like *inter partes* reviews. But as explained in the text, the two procedures are fundamentally different—and intentionally so. In *inter partes* reexamination, the examiner rather than the petitioner has the burden of proving unpatentability, and there is no discovery, motion practice, or oral argument. Compare 35 U.S.C. 316(a), (e), with 35 U.S.C. 305 and 37 C.F.R. 1.104. The Government also attempts to justify a broader standard because patents are not

The Government also makes no effort to explain why patent owners should be deprived of patent rights on the basis of claim constructions broader in scope than would apply in district-court infringement actions. Pet. App. 65a (Newman, J., dissenting); see AIPLA Amicus Br. 10; IPO Amicus Br. 7. Application of the BRI standard in IPR proceedings leads to the invalidation of patents that would be held valid under the correct standard in district court, and violates settled law that "claims must be interpreted and given the same meaning for purposes of both validity and infringement analysis." *SmithKline Diagnostics, Inc.* v. *Helena Labs. Corp.*, 859 F.2d 878, 882 (Fed. Cir. 1988).

b. The Government offers two "policy rationales" for why IPR proceedings are similar to examinations, neither of which is persuasive. Br. 10. *First*, the Government argues (Br. 10-11) that patentees have the theoretical ability to amend their claims in IPR. Again, however, patentees' amendment ability in IPR is far "more closely analogous" to "district-court litigation" than to "initial examination." Br. 14. Unlike in examination proceedings, a patentee has no right to freely amend as part of an iterative back-and-forth with the examiner. Rather, after conferring with the Board, the patentee may file "1 motion to amend," which is presumptively limited to substituting one

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presumed valid in IPR proceedings. The presumption of validity, however, is logically distinct from the question of which claim-construction standard should apply. The presumption goes to the evidentiary threshold necessary to demonstrate invalidity, whereas the claim-construction standard goes to the nature of the evidence that can demonstrate novelty or obviousness.

amended claim for each challenged claim. 35 U.S.C. 316(d); see 37 C.F.R. 42.121(a).

Moreover, the standard for granting a motion to amend in IPR is extremely high. The patentee has the burden "to show a patentable distinction of each proposed substitute claim over the prior art" and "persuade the Board that the proposed substitute claim is patentable over the prior art of record, and over prior art not of record but known to the patent owner." *Idle Free Systems, Inc.* v. *Bergstrom, Inc.*, IPR2012-00027, Paper No. 26, at 7 (June 11, 2013). As a result, the Board routinely denies motions to amend. "[O]f the 86 motions to amend filed in IPR proceedings as of June 30, 2015, *five* have been granted." BIO Amicus Br. 11 (emphasis in original). Simply put, the patentee has no right to amend—and very little practical ability to amend—that would justify construing claims more broadly than in district-court litigation. Br. 12.

Second, the Government erroneously contends (Br. 14-15) that IPRs should be treated like examinations because it is theoretically possible for the PTO to consolidate a reexamination proceeding and an ongoing IPR. It may be appropriate to consolidate separate IPR trials on the same patent, but it is rarely (if ever) appropriate to consolidate an IPR trial with a reexamination or reissue proceeding and such motions are virtually always denied. See, *e.g.*, *GEA Process Eng'g, Inc.* v. *Steuben Foods, Inc.*, IPR2014-00054, Paper No. 11, at 9 (Mar. 10, 2014). In any event, the PTO's own regulation provides that consolidation results in "a single inter partes review proceeding." 77 Fed. Reg. 48,680, 48,697 (Aug. 14, 2012). A consolidated proceeding should therefore apply whatever

claim-construction standard governs in IPR, and the fact of consolidation does not weigh in favor of the BRI standard over the ordinary-meaning standard.

c. The Government falls back on arguing that "Congress can, if it chooses, implement a different claim-construction standard." Br. 17. Of course Congress can always abrogate an agency's unlawful regulation, but that does not insulate such regulations from judicial review. See, *e.g.*, *Michigan* v. *EPA*, 135 S. Ct. 2699 (2015). As in other cases, this Court can correct the agency's mistaken interpretation of the statute and obviate the need for Congress to take action. Given the immediate harms from the Board's continued application of a broader claim-construction standard than district courts and the ITC, this Court's review is warranted now.

II. THE QUESTION OF WHETHER THE BOARD MAY FREELY EXCEED ITS STATUTORY AUTHORITY WARRANTS REVIEW.

A. The Question Is Exceptionally Important.

1. The divided panel held in this case—over Judge Newman's dissent—that 35 U.S.C. 314(d) precludes judicial review of the Board's decision to institute an IPR proceeding, even if the Board acts on a ground expressly barred by the AIA. The Government does not dispute that another divided panel of the Federal Circuit has reached the opposite conclusion. In *Versata Development, Group, Inc.* v. *SAP America, Inc.*, 793 F.3d 1306 (2015), the panel majority—over Judge Hughes' partial dissent—construed a parallel provision, 35 U.S.C. 324(e), to permit judicial review of the Board's decision to institute transitional post-grant review, also known as "covered business method" or

"CBM" patent review. Br. 21. The Federal Circuit recently failed to reconcile the conflict in *SightSound Techs., LLC* v. *Apple Inc.*, 2015 WL 8770164 (Dec. 15, 2015).

The Government urged the Federal Circuit to hear *Versata* en banc, because whether that court can review claims that the Board exceeded its statutory authority has "serious consequences for the PTO and parties in the new AIA review proceedings." PTO Petition for Rehearing En Banc at 4 (PTO Reh'g Pet.), *Versata*, *supra*. The Government takes a different view before this Court of the need for further review, but not because the Federal Circuit has achieved any level of doctrinal coherence. In *Achates Reference Publishing, Inc.* v. *Apple Inc.*, 803 F.3d 652 (2015), a panel of the Federal Circuit "limited" its holding in *Versata* to CBM patent review. The Government correctly does not argue that there is any basis in the AIA's text for permitting judicial review of the Board's decisions to institute CBM proceedings, but not its decisions to institute IPR proceedings. As the Government acknowledges, the language of the relevant statutory provisions is "materially identical." Br. 21.

Rather, the Government anticipates that, in the wake of *Achates*, the Federal Circuit will not permit judicial review of decisions to institute post-grant review, which is the third type of administrative patent proceeding established by the AIA. See Pet. 19-20. The Government is thus content with its expected two-thirds of a loaf, and is willing to endure almost five years of judicial review in the CBM context until the program sunsets in September 2020. Of course, the Government cannot resist hedging its bets: if the

Federal Circuit permits judicial review of post-grant institution decisions, "this Court's review may be appropriate to protect the integrity of AIA post-issuance-review proceedings." Br. 22. One-third of a loaf will not be enough.

2. This Court's review should not turn on whether the Federal Circuit's conflicting decisions happen to cut more in favor of the PTO and the Board than patent holders. As the Government told the Federal Circuit in its rehearing petition in *Versata*, the "clear conflict" between *Versata* and this case "casts a long shadow of uncertainty over the scope of [the Federal Circuit's review], leaving both private parties and the PTO at a loss to predict what questions the [Federal Circuit] will agree to decide." PTO Reh'g Pet. at 2, 5; see *id.* at 14-15 (explaining that the conflict "casts a pall of uncertainty over all of the new AIA proceedings"). What the Government said less than four months ago remains true now: whether the Board's institution decisions are reviewable is a "question of tremendous prospective importance" that will affect "countless future appeals." *Id.* at 5 & n.1.

B. The Board May Not Act Unlawfully In Instituting IPR Without Any Judicial Oversight.

1. The Government incorrectly argues (Br. 17-21) that even if the Board institutes an IPR proceeding on grounds barred by the AIA, the Board's unlawful action is unreviewable. To the contrary, Section 314(d) works in tandem with Sections 141(c), 318(a), 319: the former prevents interlocutory review of the Board's institution decisions, while the latter permit review of the Board's final decisions without limitation. The Government's various attempts to resist that common-sense conclusion are not persuasive.

a. The Government says that Section 314(d) is unnecessary to prevent interlocutory review, because "background principles of administrative law" only permit review of final agency action. Br. 18. But as the Federal Circuit has held, Section 314(d) bars mandamus review of the Board's decision to institute an IPR proceeding—a function that the Government does not address. See Pet. App. 6a (joint dissent); *In re Procter & Gamble Co.*, 749 F.3d 1376, 1379 (Fed. Cir. 2014) (denying a mandamus petition seeking interlocutory review of the Board's decision to institute IPR).

b. The Government contends that barring all review of the Board's institution decisions "furthers the purposes of the AIA" by "avoiding the waste and expense" of "relitigating threshold questions" that "do not bear on the proper scope of the patentee's exclusive rights." Br. 20-21. But the "threshold question[]" is whether the Board has the statutory authority to adjudicate "the proper scope of the patentee's exclusive rights" in the first place. Far from undermining the AIA's purposes, permitting review is the only way to ensure that the Board's scrutiny of an issued patent actually complies with the AIA's requirements. It is the panel majority's decision in this case that undercuts the AIA by giving the Board a "blank check" to "rewrite its statutory authority." NYIPLA Amicus Br. 9.[2]

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[2] Contrary to the Government's assertion (Br. 20 n.6), petitioner's position would not allow review of decisions declining to institute IPR, because there is no final written decision from the Board in such cases.

2. The Government notably says nothing about the "strong presumption" favoring review of agency action. *Mach Mining, LLC* v. *EEOC*, 135 S. Ct. 1645, 1651 (2015); see *Bowen* v. *Mich. Acad. of Family Physicians*, 476 U.S. 667, 670 (1986). The Government cannot pick and choose only the "background principles of administrative law" that it likes. Br. 18. Because Section 314(d) can be read to bar only interlocutory appeals, it should be read that way.

* * * * *

For the foregoing reasons and those stated in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted.

JANET GALERIA
SULLIVAN & CROMWELL LLP
1888 Century Park East
Los Angeles, CA 90067
(310) 712-6600

JEFFREY B. WALL
Counsel of Record
SULLIVAN & CROMWELL LLP
1700 New York Avenue, N.W.
Suite 700
Washington, DC 20006
(202) 956-7500
wallj@sullcrom.com

GARRARD R. BEENEY
SULLIVAN & CROMWELL LLP
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